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January 16, 2003

S. David Freeman, Chairman
California Consumer Power and Conservation Financing Authority
901 P Street, Suite 142 A
Sacramento, CA 95814

Re: Rulemaking: Establishment of Target Reserve Level for the California Power Authority
(CPA) Investment Plan, Docket 2002-7-01

Dear David:

I am pleased to respond to your request for support to your efforts to identify and establish appropriate target reserve levels for electric reliability. I recognize that this effort was a crucial reason for the creation of the CPA in 2001 and support your continuing efforts to address the issue.

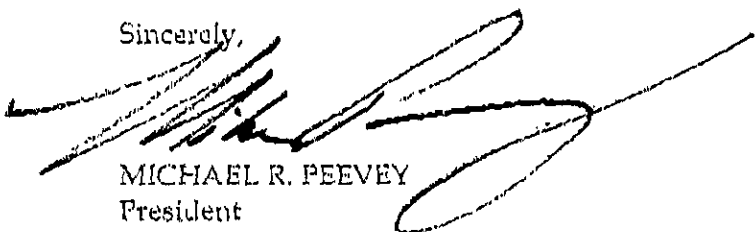
I also appreciate your efforts to involve PUC staff and incorporate their comments into the draft rule, and hope we can continue to work together as this process moves forward. In particular, I expect that your efforts can be helpful to PUC activities in two specific areas:

- Our procurement proceeding, where we have already established that load serving entities are responsible for procurement of reserve capacity, and where we will be conducting an ongoing assessment of consumer risk tolerance to be covered by reserve requirements.
- Our demand response proceeding, where we are assessing the potential for reserve requirements to be met through demand-side investment.

Your efforts to develop a common definition of reserve requirements to be used statewide, and to set a target (though not yet binding) percentage for procurement of reserves, will also be helpful to the State and the California ISO as we all continue to strive to ensure a reliable power supply while minimizing cost and conserving resources.

I look forward to continuing to work with you and your staff, as well as the CEC and the CA ISO, on this important effort.

Sincerely,



MICHAEL R. PEEVEY
President